



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2017 Biennium

Bill #	HB0411	Title:	Generally revise oil and gas tax laws
Primary Sponsor:	Richmond, Tom	Status:	As Amended in House Committee

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|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Needs to be included in HB 2 | <input type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$0	\$0	\$0	\$0
Net Impact-General Fund Balance:	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

Description of fiscal impact: The provisions in HB 411, as amended, increase the West Texas Intermediate (WTI) crude oil price trigger required for implementing the stripper well exemption tax rate from \$38 per barrel to \$54 per barrel.

FISCAL ANALYSIS

Assumptions:

- Under current law, stripper well exemption production and stripper well bonus production refers to oil produced by a stripper well that produces three barrels per day or less. When WTI crude oil is less than \$38 per barrel for a calendar quarter, the stripper exemption production tax rate takes effect. Otherwise, production from a stripper well is taxed at the stripper well bonus rate.
- HB 411 raises the calendar quarter WTI price needed to qualify oil production for stripper well exemption production to \$54 per barrel from the current \$38 per barrel.
- Stripper well exemption production for working interest owners is taxed at a rate of 0.5%.

4. Stripper wells are taxed at a rate of 6% if the WTI price is above the defined level (\$38 per barrel under current law, \$54 as proposed in this bill). This production is defined as stripper well bonus production.
5. Using HJ 2 estimates for WTI prices for FY 2016 and FY 2017, and extrapolating those numbers using OBPP growth rates for FY 2018 and FY 2019, the WTI price would not be below \$54 for any calendar quarter in FY 2016 through FY 2019. Thus, there is no fiscal impact in this bill.
6. Oil and gas production information reported to the department for FY 2014 suggests that 1.61% of total gross value of oil production in Montana is from the working interest portion of stripper wells.
7. Using HJ 2 figures for FY 2016 and assuming that 1.61% of the total gross value of oil production would be from the taxable working interest portion of stripper wells, the following table estimates one quarter's loss from the change in law if the WTI price is less than \$54 per barrel.

Second Quarter FY 2016 Tax Revenue Changes	
Total Barrel Production	6,861,500
Montana Price per Barrel	\$70.10
Total Gross Value	\$480,991,150
Total Value Taxable Stripper Production	\$7,743,958
Current Law Tax Revenue	\$464,637
Proposed Law Tax Revenue	\$38,720
Difference	(\$425,918)

8. This bill would result in some administrative costs for the department which would be absorbed.
9. This bill is effective July 1, 2015, the first quarter of FY 2016.

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
<u>Fiscal Impact:</u>				
TOTAL Expenditures	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
TOTAL Funding of Exp.	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Revenues:</u>				
General Fund (01)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
TOTAL Revenues	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

Effect on County or Other Local Revenues or Expenditures:

1. To the extent the WTI quarterly price dropped below \$54 per barrel, this bill would result in a decrease to the county/local distribution provided for under law, thereby impacting county/local recipients.

Sponsor's Initials_____
Date_____
Budget Director's Initials_____
Date